dr.jsmlm

Dr JS Moroka Local Municipality

Dr JS Moroka Local Municipality
Financial statements
for the year ended 30 June 2012

RE: AUDIT

15/12/2012
DATE

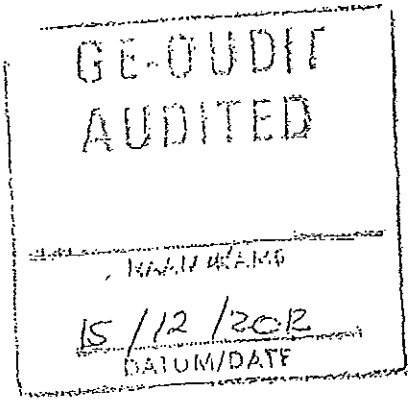
General Information

Legal form of entity	Local municipality
Mayoral committee	
Executive Mayor	Cllr. Mthimunye GT
MMC Social Development	Cllr. Mahlangu D.P
MMC Public Safety , Roads & Transport	Cllr. Madonsela T L
MMC Planning & Infrastructure	Cllr. Magoele B S
MMC Finance & LED	Cllr. Ntlailane S M
MMC Admin and Corporate Services	Cllr. Sekwala J M
Speaker	Cllr. Skosana G J
Council Whip	Cllr. Boshomane K J
Councillors	Apane S P
	Bopape D M
	Khoza A D
	Komape A N
	Kutu P F
	Lamola B R
	Lebelo M M
	Legong T B
	Legong M S
	Lelaka Y L
	Maganedisa M S
	Matlala M N
	Malefo B M
	Malebe D C
	Maluleke M T
	Mtsweni K O
	Mdluli D M
	Mthombeni J N
	Mahlangu T T
	Masombuka M J
	Msiza J N
	Mthimunye F S
	Mokoele M S
	Marota J M
	Mashao M J
	Maoka R N
	Mabaso N A
	Mabena S.B
	Matlala O M
	Mahlangu J S
	Masoga J N
	Manganye N M
	Mashishi M W
	Masimula L P
	Maja S R
	Makhobela L F
	Mokhabela J T
	Mnguni F M
	Masilela S E
	Mogano N G
	Ndala E N

15/12/2012

General Information

	Nkadimeng S L Nkoane S E Ndlovu Z Phaahla S M Ratsoma P G Setlhako K N Segalagala J Shabalala R B Skosana S N Sekanka M E Tlaka J S
Grading of local authority	Grade 3
Accounting Officer	Mcineka Z W
Chief Finance Officer (CFO)	Burger LJ
Registered office	A2601/3 Bongimfundo Street Siyabuswa 0472
Business address	Private Bag x4012 Siyabuswa 0472
Postal address	Private Bag x4012 Siyabuswa 0472
Bankers	Absa Bank - Marblehall branch
Auditors	Auditor-General of South Africa



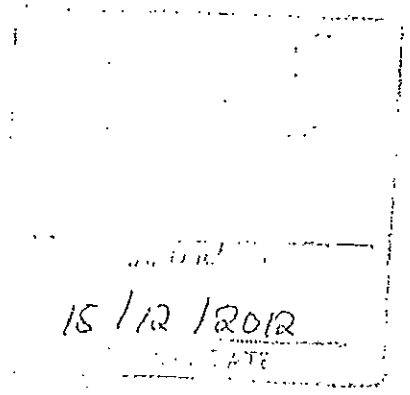
Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Accounting Policies	12 - 32
Notes to the Financial Statements	33 - 65

Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Implementation Grant
DWAE	Department of Water and Environmental Affairs
IDC	Industrial Development Corporation



Accounting Officer's Responsibilities and Approval

I ZW Mcineka , Accounting Officer of Dr JS Moroka Local Municipality, am responsible for the preparation of Annual Financial Statements, which are set out on page 1 to 66 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The reports and statements set out above comprise the Annual Financial Statements to the Auditor-General in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) as prescribed by the Minister of Finance in terms of General Notice 516 of 2008 and the Accounting Framework as set out in the Accounting Standard Board (ABS) directives read together with relevant directive relating to the capacity of municipalities.

I certify that salaries, allowances and benefits of Councillors as disclosed in note 21 of these Annual Financial Statements are with the upper limits of the framework envisaged in Section 219 of the Constitution read with the Remuneration of Public Office Bearers Act, Act no 20 of 1998 and Section 124 of the Municipal Management Act, Act 56 of 2003.

Accounting Officer
ZW Mcineka

15/12/2012

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

15 / 12 / 2012

Accounting Officer's Report

1. Overview

Although the year under review posed many challenges to the collective leadership of the municipality as a result of the disclaimer received in the previous financial year, our municipality is striving to move out of the disclaimer by improving on the internal systems of control compliance to laws and regulations, improve financial management and also improve on performance information.

The Accounting Officer is by law required to annually prepare financial statements in accordance to the Standard of Generally Recognised Accounting Practice (GRAP).

During the preparation of these Annual Financial Statements the application of GRAP 3 has been used extensively in order to try and address material errors.

Most of the assets in the asset register as at 30 June 2012 have been re-valued accordingly and the fair value amounts attached. The derecognition of movable assets(inventory) is mostly as a result of the arson which broke out on the 05 September 2011 which left most of the inventory unusable.

These was an early adoption of GRAP 104, this will enable the municipality to be able to appropriately recognise a financial asset on the financial position when and only when the municipality becomes a party to the contractual provisions of the instrument.

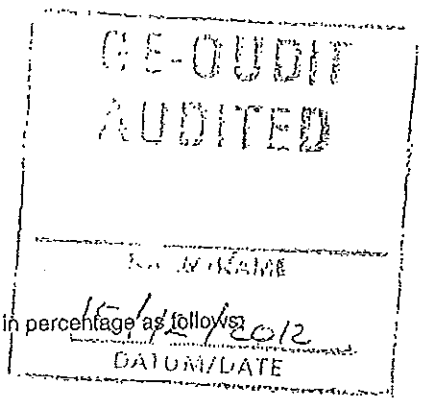
The overall operating results of the past financial year closed off with the total budget of R525 851 000.00 against the total expenditure amounting to R320 481 058.00.

2. OPERATING REVENUE

The operating revenue for the year was supported by the following sources

2.1 Own Revenue

2.2 Government Grants (Equitable share)



3. OPERATING EXPENDITURE

Operating Expenditure for the year is R320 481 058.00 which is broken down and expressed in percentage as follows:

Salaries & wages	R83 649 096
General Expenses	R91 618 658
Repairs & Maintenance	R10 776 882
Depreciation charges	R65 437 466
Interest paid	R914 636

4. DEBTORS

The debtors book value of the municipality is always having a drastic increase. During the year under review the municipality could not be able to effectively implement the credit control and debt collection policy, among other due to the reason that there is no by-law in place to can give effect to the provisions of the Municipal Systems Act, Act 32 of 2000 and related municipal policy.

5. CAPITAL EXPENDITURE FINANCIAL

The total capital expenditure for the year which has been capitalized for bringing up of PPE is amounting to R100,520,925. this excludes an amount of R15,363,305 which was approved as a roll - over with regard to the implementation and the finalisation of capital project which were committed in the previous financial year.

6. INVESTMENT & CASH

Investments are done and conducted in compliance to the municipal investments and cash management policy, the municipality Finance Management Act as well as investments regulations.

7. WORDS OF APPRECIATION

I took up the responsibility to lead the department only two months before the end of the financial year and at that time we had to start almost from the scratch to prepare for the compilation of the financial statements and also to address some basis of the

Accounting Officer's Report

disclaimer, however with the support of the Executive Mayor, members of the Mayoral Committee, the Acting Municipal Manager and the management of the municipality we manage to bring some improvements which are reflecting on the financial statements of the year under review.

It is also a great pleasure to extend words of thanks to the management and the entire staff in finance department who contributed a great deal in ensuring that such improvements are being brought forward.

Looking at where we started this project in April without the dedicated financial staff I would not be in the position to firstly address issues that have been raised by the Auditor- General in the previous financial year and I would not be able to deliver financial statements to the office of the Auditor – General on time.

Colleagues I thank you all for your support keep it up>

Mcineka ZW
MUNICIPAL MANAGER.

15/12/2012

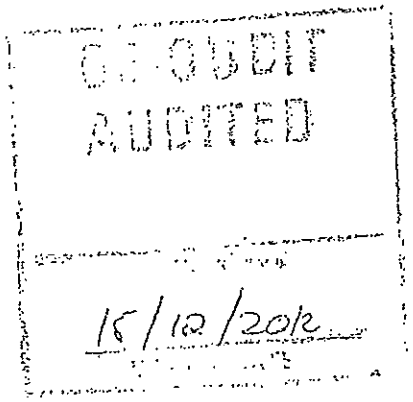
Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
Assets			
Current assets			
Inventories	4	8 057 951	5 950 214
Other financial assets	5	31 090 244	31 845 491
Receivables from exchange transactions	6	433 830	4 423 299
VAT receivable	7	-	16 294 454
Consumer debtors	8	31 187 464	7 153 678
Cash and cash equivalents	9	120 184 096	90 539 503
		190 953 585	156 206 639
Non-current assets			
Property, plant and equipment	3	1 261 622 585	1 193 726 211
Total assets		1 452 576 170	1 349 932 850
Liabilities			
Current liabilities			
Finance lease obligation	10	1 061 121	500 391
Payables from exchange transactions	11	10 751 134	37 815 335
VAT payable	12	4 836 516	-
Unspent conditional grants and receipts	13	64 936 036	15 363 305
		81 584 807	53 679 031
Non-current liabilities			
Finance lease obligation	10	1 050 564	787 532
Provisions	14	10 388 176	8 878 784
		11 438 740	9 666 316
Total liabilities		93 023 547	63 345 347
Net assets		1 359 552 623	1 286 587 503
Net assets			
Accumulated surplus		1 359 552 623	1 286 587 503

15/12/2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	Restated 2011
Revenue			
Property rates	16	3 554 764	2 009 562
Service charges	17	62 857 087	20 959 718
Rental of facilities and equipment		1 557 406	1 190 301
Interest received - trading		12 180 264	7 849 821
Licences and permits		2 758 799	2 824 478
Government grants and subsidies	18	274 095 269	282 325 048
Other income		25 805 768	6 302 025
Interest received - investment	22	10 205 943	11 579 215
Gains on disposal of assets	22	348 565	905 326
Total Revenue		393 363 865	335 945 494
Expenditure			
Personnel	20	(83 649 096)	(79 183 157)
Remuneration of councillors	21	(14 650 876)	(14 502 432)
Depreciation and amortisation	23	(65 437 466)	(38 582 200)
Impairment loss		-	(9 596)
Finance costs		(914 636)	(167 284)
Debt impairment	24	(43 098 134)	(19 923 138)
Repairs and maintenance		(10 776 882)	(14 801 065)
Grants and subsidies paid	26	(10 335 310)	(6 237 627)
General expenses	27	(91 618 658)	(80 871 399)
Total expenditure		(320 481 058)	(254 277 898)
Fair value adjustments		82 309	-
Surplus for the year		72 965 116	81 667 596



The supplementary information presented does not form part of the financial statements and is unaudited

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 462 622 076	1 462 622 076
Adjustments		
Correction of errors	(257 702 169)	(257 702 169)
Balance at 01 July 2010 as restated	1 204 919 907	1 204 919 907
Changes in net assets		
Surplus for the year	81 667 596	81 667 596
Total changes	81 667 596	81 667 596
Opening balance as previously reported	1 560 527 563	1 560 527 563
Adjustments		
Correction of errors	(273 940 056)	(273 940 056)
Balance at 01 July 2011 as restated	1 286 587 507	1 286 587 507
Changes in net assets		
Surplus for the year	72 965 116	72 965 116
Total changes	72 965 116	72 965 116
Balance at 30 June 2012	1 359 552 623	1 359 552 623

Note(s)

15/12/2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	Restated 2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		17 721 360	14 069 845
Grants		323 668 000	297 688 353
Interest income - trading		10 205 943	11 579 215
Other receipts		18 561 291	10 316 804
Other cash item		4 873 293	-
		375 029 887	333 654 217
Payments			
Employee costs		(95 675 325)	(93 685 589)
Suppliers		(129 914 365)	(7 243 474)
Finance costs		(159 942)	(41 515)
Other payments		(10 335 310)	(123 914 343)
		(236 084 942)	(224 884 921)
Net cash flows from operating activities	28	138 944 945	108 769 296
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(111 326 240)	(59 649 078)
Proceeds from sale of property, plant and equipment	3	524 511	920 500
Proceeds/(Expenses) from sale of financial assets		837 556	(12 568 898)
Net cash flows from investing activities		(109 964 173)	(71 297 476)
Cash flows from financing activities			
Repayment of other financial liabilities		(1)	(4 073 769)
Finance lease payments		663 823	747 233
Net cash flows from financing activities		663 822	(3 326 536)
Net increase/(decrease) in cash and cash equivalents		29 644 593	34 145 284
Cash and cash equivalents at the beginning of the year		90 539 503	56 394 219
Cash and cash equivalents at the end of the year	9	120 184 096	90 539 503

15/12/2012

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

AUDITED
15/12/2012

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation/amortisation charges for property, plant and equipment and intangible assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Provision for debt impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to intial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is depreciated on the straight line basis over the expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	
Plant and machinery	3 - 10 years
Furniture and fixtures	3 - 6 years
Motor vehicles	5 years
Office equipment	4 - 6 years
Infrastructure	2 - 30 years

15/12/2012

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Accounting Policies

1.2 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.4 Intangible assets

An identifiable non-montary asset without phyiscal substance is identified as an intangible asset when it:

- is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

GE-0001
AUDITED
15/12/2012

Intangible assets are initially recognised at cost.

Where an intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Accounting Policies

1.4 Intangible assets (continued)

Subsequent to intial measurement Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period,residual value, if any, and the amortisation method for intangible assets are reviewed at each reporting date. If the expectations differ from the previous estimate, the change is accounted for as a change in accounting estimate.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	1 year

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Stanlib investment	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost

30/9/12 /2012

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.5 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measured at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value.

15/12/2012

Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at intial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that inital amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibilty in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short term receiavbles and payables are not discounted where the inital credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.5 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial asset are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

15/12/2012

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

Accounting Policies

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis

Any contingent rents are recognised separately as revenue in the period they are received

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

PRINCIPAL

15/12/2012
DATE

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.7 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Receoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

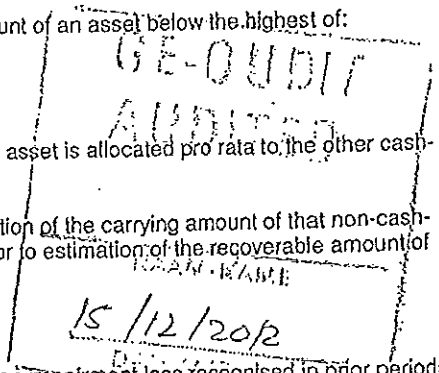
An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

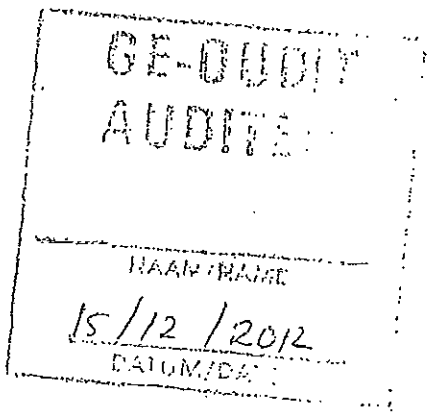
Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Irrespective of whether there is any indication of impairment, the municipality also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use, for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:



Accounting Policies

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction / (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

GE-QUOIT
AUDITED
15/12/2012

Accounting Policies

1.11 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard of GRAP requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

AUDITED

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

Accounting Policies

1.11 Employee benefits (continued)

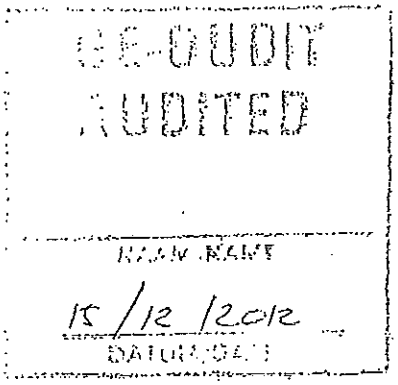
Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard of GRAP requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.



Accounting Policies

1.11 Employee benefits (continued)

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

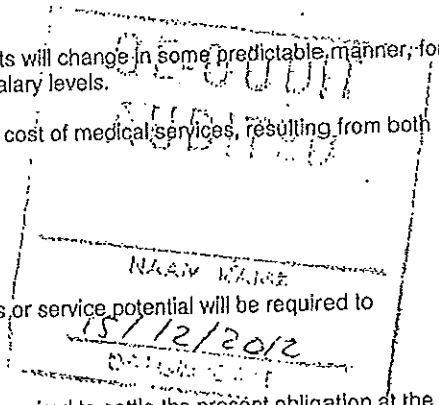
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.



The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Accounting Policies

1.12 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the municipality; or

A present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

AUDITED
15/12/2012

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Revenue from exchange transactions

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

GE-AUDIT
AUDITED
15/12/2012
DATE

1.14 Revenue from non-exchange transactions

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Accounting Policies

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.15 Investment Income

Investment income is recognised on a time-proportion basis using the effective interest method.

GE-OUDIF
NAAM SKAAL
15/12/2012

Accounting Policies

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

GE-OUDIT
RAAMONT
15/12/2012

Accounting Policies

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Budget information

The financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the financial statements. Refer to note .

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by South African Government. As consequence of the constitutional independance of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Managementare those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

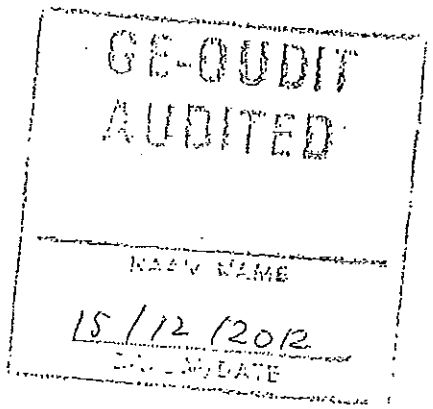
Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
-approved and contracted commitments;
-where the expenditure has been aprroved and contract has been awarded at the reporting date; and
-where disclosure is required by a specfic standard of GRAP



Notes to the Financial Statements

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities

The interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- recognised as part of the cost of an item of property, plant and equipment in accordance with the Standard of GRAP on Property, plant and equipment (as revised in 2010); and
- recognised as a liability in accordance with the Standard of GRAP on Provisions, contingent liabilities and contingent assets (as revised in 2010) .

The interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

- a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;
- a change in the current market-based discount rate as defined in paragraph 52 of the Standard of GRAP on Provisions, contingent liabilities and contingent assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and
- an increase that reflects the passage of time (also referred to as the unwinding of the discount).

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

IGRAP 3: Determining Whether an Arrangement Contains a Lease

This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

The issues addressed in this Interpretation of the Standards of GRAP are:

- how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
- when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
- if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

IGRAP 4: Rights to Interests arising from decommissioning, restoration and environmental rehabilitation funds

The issues addressed in this Interpretation of the Standards of GRAP are:

- the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
- a contributor's right to access the assets is restricted.

A residual interest in a fund that extends beyond a right to reimbursement, such as a right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of the Standard of GRAP on Financial Instruments and is not within the scope of this Interpretation of the Standards of GRAP.

The issues addressed in this Interpretation of the Standards of GRAP are:

- how should a contributor account for its interest in a fund?
- when a contributor has an obligation to make additional contributions, for example, in the event of the liquidation of another contributor, how should that obligation be accounted for?

CE-AUDIT
AUDITED
NAMA
15/12/2012

Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

IGRAP 5: Applying the restatement approach under the Standard of GRAP on Financial reporting in hyperinflationary economies

This Interpretation of the Standards of GRAP provides guidance on how to apply the requirements of the Standard of GRAP on financial reporting in hyperinflationary economies (as revised in 2010) in a reporting period in which a municipality identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the municipality therefore restates its financial statements in accordance with the Standard of GRAP on Financial reporting in hyperinflationary economies (as revised in 2010).

The questions addressed in this Interpretation of the Standards of GRAP are:

- how should the requirement '... stated in terms of the measuring unit current at the reporting date' in paragraph 10 of the Standard of GRAP on Financial reporting in hyperinflationary economies (as revised in 2010) be interpreted when a municipality applies the Standard of GRAP?
- a contributor's right to access the assets is restricted.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

IGRAP 6: Loyalty Programmes

This Interpretation of the Standard of GRAP is not applicable to the muncipality.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

There is no impact of the interpretation on adoption.

IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by entities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:

- Is the agreement within the scope of the Standard of GRAP on Construction contracts (as revised in 2010) or the Standard of GRAP on Revenue from exchange transactions (as revised in 2010)?
- When should revenue from the construction of assets in exchange transactions be recognised?

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

AUDITED
15/12/2012

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP 9: Distributions of Non-cash assets to owners

This Interpretation of the Standards of GRAP is not applicable to the municipality

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

There is no impact of the interpretation on adoption.

IGRAP 10: Assets Received from Customers

This Interpretation of the Standards of GRAP applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.

Agreements within the scope of this Interpretation of the Standards of GRAP are those in which the municipality receives from a customer an item of property, plant and equipment that the municipality must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on Revenue from non-exchange transactions (taxes and transfers), or infrastructure used in a public-private partnership agreement (see the Guideline on Accounting for public-private partnerships), or assets received in a transfer of functions.

The Interpretation of the Standards of GRAP addresses the following issues:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?
- If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a receipt of cash from its customer?

The effective date of the Interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the Interpretation for the first time in the 2012 financial statements.

The impact of the Interpretation is not material.

IGRAP 13: Operating Leases – Incentives

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

GE-DUDIT
15/12/2012

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

An entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, an entity may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the investor that is shared with the entity in the form of a fee, and not to convey the right to use an asset.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- how to determine whether a series of transactions is linked and should be accounted for as one transaction;
- whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
  - whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
  - how the entity should account for other obligations resulting from the arrangement; and
  - how the entity should account for a fee it might receive from an investor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

IGRAP 15: Revenue – Barter transactions involving advertising services

A municipality (seller) may enter into a barter transaction to provide advertising services in exchange for receiving other services from its customer (customer). Advertisements may be displayed on the internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium. An example could be where a municipality offers advertising services to local businesses in its community newsletters in exchange for repairs and maintenance services provided by those businesses. These repair and maintenance services may, for example, take the form of repairing and maintaining office buildings or motor vehicles owned by the municipality.

In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

A seller that provides advertising services in the course of its ordinary activities recognises revenue under the Standard of GRAP on Revenue from exchange transactions (as revised in 2010) from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar in terms of paragraph .18 in the Standard of GRAP on Revenue from exchange transactions (as revised in 2010) and the amount of revenue can be measured reliably in terms of paragraph .20(a) in the Standard of GRAP on Revenue from exchange transactions (as revised in 2010). This Interpretation of the Standards of GRAP only applies to an exchange of dissimilar services. An exchange of similar advertising services is not a transaction that generates revenue under the Standard of GRAP on Revenue from exchange transactions (as revised in 2010).

The issue is under what circumstances can a seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality has adopted the interpretation for the first time in the 2012 financial statements.

The impact of the interpretation is not material.

GRAP 1 (as revised 2010): Presentation of financial statements

The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

AUDITED
MAIN VOTE
15/12/2012

Notes to the Financial Statements

2. New standards and interpretations (continued)

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, and the use of transitional provision in the accounting policy.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 2 (as revised 2010): Cash Flow Statements

The revision resulted in various terminology and definition changes.

Operating cash flows:
- Where an entity is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.

Investing cash flows:
- Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.

Acquisitions and disposals of controlled entities and other operating units:
- Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2010): Accounting policies, changes in accounting estimates and errors

The revision resulted in various terminology and definition changes.

Paragraphs added to changes in accounting policies
- A change from one basis of accounting to another basis of accounting is a change in accounting policy.
- A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies
- The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph 11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- Commentary on the selection of benchmark and alternative accounting policies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 4 (as revised 2010): The effects of changes in foreign exchange rates

AUDIT
PROJECT
15/12/2012

Notes to the Financial Statements

2. New standards and interpretations (continued)

Terminology changes:

Where reference has been made to the net realisable values of inventories, current replacement cost has also been included to allow for the appropriate valuation of inventories where they are distributed as part of a non-exchange transaction. Reference to 'trade' receivables has been amended to 'receivables'.

Monetary items:

Paragraph 15 clarifies that child support grants are 'payables', and not just 'obligations' in terms of the current requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets (GRAP 19).

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2010): Revenue from exchange transactions

The revision resulted in various terminology and definition changes.

Various amendments, deletions and additions to examples included in the appendix.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 10 (as revised 2010): Financial reporting in hyperinflationary economies

Certain terminology changes:

- The reference to 'current cost' in paragraph 30 has been deleted.
- Where reference has been made to 'net realisable value', 'current replacement cost' has been added.

Net monetary position:
References to 'surplus' or 'deficit' have been changed, throughout the document, to 'gain' or 'loss'.

Interpretations:
Text included in this Standard of GRAP from IFRIC Interpretation 7 on Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

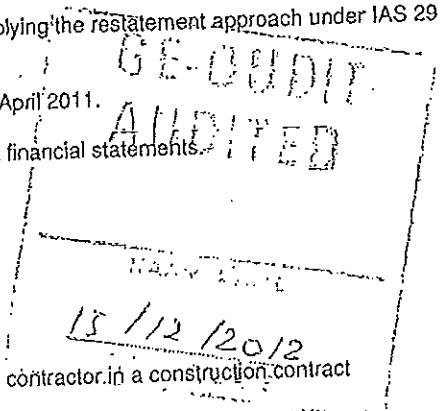
The impact of the amendment is not material.

GRAP 11 (as revised 2010): Construction contracts

The revision resulted in certain terminology changes:

Other amendments:

- An example has been added to clarify when an entity acts as a contractor in a construction contract arrangement.
- The example in paragraph 11 has been deleted as it is inappropriate for the South African public sector.
- The explanatory text relating to 'contractors' has been amended to clarify that an entity can be a contractor if it performs construction related activities itself or through subcontractors.



Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2010): Inventories

The revision resulted in various terminology and definition changes.

Cost formulas:
Paragraph 34 was amended and 35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

Recognition as an expense:
Where reference has been made to 'net realisable value', 'current replacement cost' has been added.

Fair value measurement:
The appendix on how to determine fair value has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2010): Leases

The revision resulted in various terminology and definition changes.

Scope:
Paragraph 4 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Non-current assets held for sale and discontinued operations:
Paragraph 51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current assets held for sale and discontinued operations shall be accounted for in accordance with that standard.

Guidance on accounting for finance leases by lessors:
The paragraph (previously paragraph 53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for public private partnerships supersedes this guidance.

Guidance on operating lease incentives and substance over legal form:
The guidance included in the original text on substance over legal form has been deleted.

Classification of leases on land and buildings elements:
The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 14 (as revised 2010): Events after the reporting date

AUDIT
AUDITED
15/12/2012

Notes to the Financial Statements

2. New standards and interpretations (continued)

Existence of a liability for dividends or similar distributions:
Paragraph 13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2010): Investment property

The revision resulted in various terminology and definition changes.

Recognition of investment property:
- Additional commentary has been included in paragraph 19 and 20 to explain paragraph .18 that outlines the recognition criteria for investment property.
- This Standard includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard, but not the initial development. As a result paragraphs 10 and 11 were amended, paragraphs 60 and 61 inserted, and paragraphs 25 and 65(e) of the original text deleted.
- The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably.
- Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:
Entities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

Amendments to be applied as follow:
- Paragraphs 10(e), 54, 59, 62 and 65 were amended, paragraphs 60 and 61 were added and paragraph 25 and 11 (d) of the original text (2004) was deleted by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact. The related amendment to paragraph 5 in the Standard of GRAP on Property, Plant and Equipment is also applied earlier.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

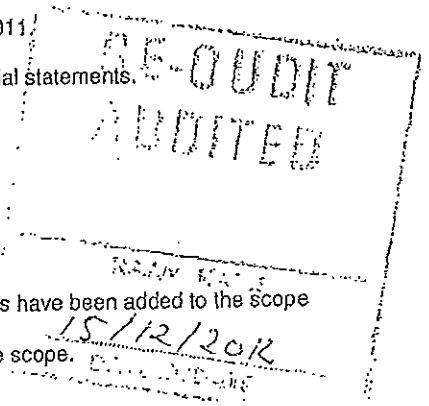
The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2010): Property, plant and equipment

The revision resulted in various terminology and definition changes.



Scope:
- The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions.
- Investment properties under construction have been removed from the scope.

Measurement at initial recognition:
Paragraph 23 and 24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.

Notes to the Financial Statements

2. New standards and interpretations (continued)

Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Derecognition:
- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- Paragraph 79 has been added in line with the IASB Improvements project to clarify that where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on non-current assets held for sale and discontinued operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.

Disclosures:
- The required disclosures in paragraph 90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used.
- The requirement to disclose the cost basis for revaluated assets was removed.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 19 (as revised 2010): Provisions, contingent liabilities and contingent assets

The revision resulted in certain terminology changes.

Social benefits:
Paragraphs 8 and 16(a) clarify that social benefits due at year end are 'payables', as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:
Paragraph 87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Interpretations:
In developing the standard initially, the board included relevant text from any interpretation that had been issued by the International Financial Reporting Interpretations Committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in decommissioning, restoration and similar liabilities and IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds in line with the board's decisions. The board concluded at its May 2008 meeting that it would issue any interpretations as separate documents rather than dispersing the text of the interpretations across various standards. As a result, paragraphs 37 to 43, 74 to 80, and Appendix F of the previous version of GRAP 19, have been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.

GRAP 100 (as revised 2010): Non-current assets held for sale and discontinued operations

The revision resulted in various terminology and definition changes.

Scope:
Paragraph 7 has been added to clarify the application of other Standards of GRAP to assets classified as non-current assets (or disposal groups) held for sale.

Plan to sell the controlling interest in a controlled entity:

Notes to the Financial Statements

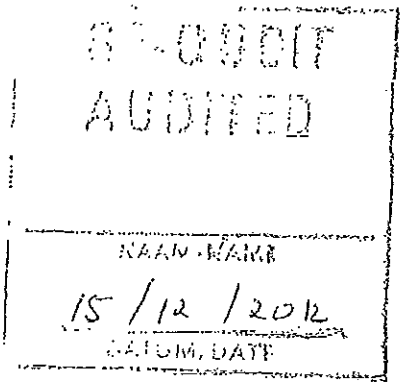
2. New standards and interpretations (continued)
   - The standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control in a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the required criteria are met.
   - The standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control of a controlled entity shall disclose the information required when the controlled entity is a disposal group that meets the definition of a discontinued operation.

Examples included in appendix:
An additional example has been included regarding sale expected to be completed within one year.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 financial statements.

The impact of the amendment is not material.



Notes to the Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

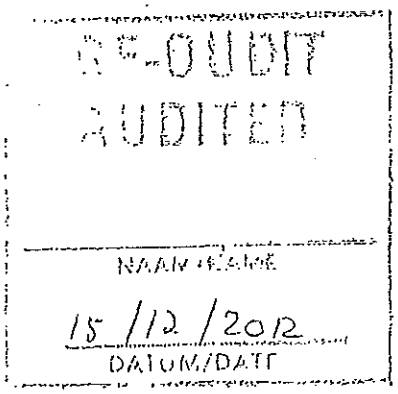
A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.



Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The major difference between this Standard of GRAP and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This Standard of GRAP requires a municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from non-exchange revenue transactions (taxes and transfers), and using the framework for the preparation and presentation of financial statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;

Notes to the Financial Statements

2. New standards and interpretations (continued)
   - an investment in a residual interest for which fair value can be measured reliably; and
   - other instruments that do not meet the definition of financial instruments at amortised cost or cost.
   - Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:
   - the cash flows from the asset expire, are settled or waived;
   - significant risks and rewards are transferred to another party; or
   - despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

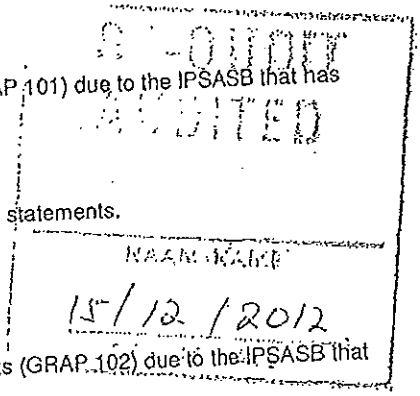
An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in less disclosure than would have previously been provided in the financial statements.



GRAP 27: Agriculture

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the IPSASB that has issued an IPSAS on Agriculture (IPSAS 27).

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2012 financial statements.

There is no impact of the standard on adoption.

GRAP 31: Intangible Assets

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSAS 31).

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2012 financial statements.

There is no impact of the standard on adoption.

Notes to the Financial Statements

2. New standards and interpretations (continued)

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

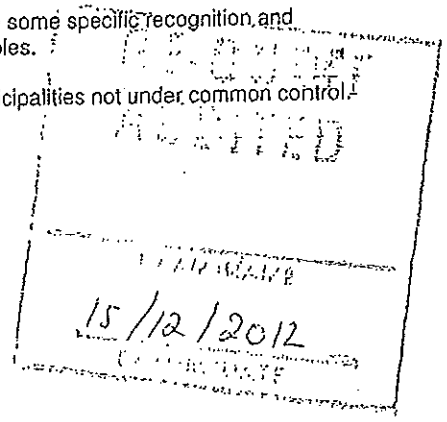
For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.



Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by thecombining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

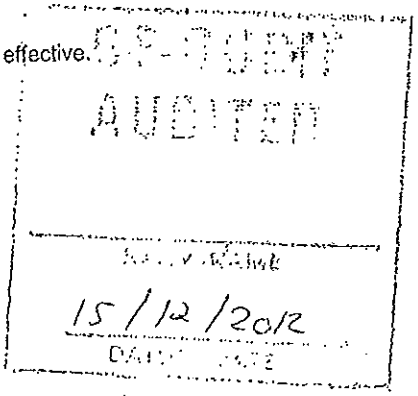
This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.



Notes to the Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP 16: Intangible Assets - Website costs

The Interpretation deals with the treatment of a municipality's own website. The guidance on website costs was previously included in the Standard of GRAP on Intangible Assets.

It concludes that a municipaltity's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, a municipality can satisfy the requirements in paragraph .54 in the Standard of GRAP on Intangible Assets, which in particular requires a municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If a municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this Interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

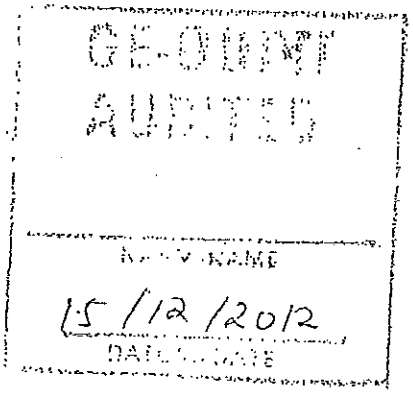
The municipality expects to adopt the interpretation for the first time in the 2014 financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

Improvements to Standards of GRAP

The following Standards of GRAP have been amended as part of the ASB's Improvements Project for 2011:

- GRAP 1;
- GRAP 3;
- GRAP 7;
- GRAP 9;
- GRAP 12;
- GRAP 13;
- GRAP 16; and
- GRAP 17.



Notes to the Financial Statements

2. New standards and Interpretations (continued)

The changes made will have no significant impact, except for the following:

A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting policies, changes in accounting estimates and errors (as revised in 2010).

A requirement to include transaction costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in associates.

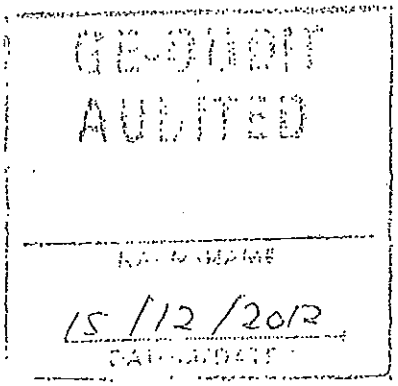
Changes were made to the Standard of GRAP on Investment property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furhtermore the assessment of significant use of an investment property has been clarified.

Changes were made to the Standard of GRAP on Property, plant and equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furhtermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements



Notes to the Financial Statements

Figures in Rand	2012	2011

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	5 015 859	(3 009 515)	2 006 344	5 015 859	(2 675 125)	2 340 734
Buildings	102 680 572	(8 896 316)	93 784 256	102 657 172	(6 200 290)	96 456 882
Plant and machinery	23 595 984	(1 237 139)	22 358 845	7 610 365	(876 420)	6 733 945
Furniture and fixtures	9 996 702	(2 778 505)	7 218 197	8 586 097	(2 622 400)	5 963 697
Motor vehicles	48 139 929	(29 712 698)	18 427 231	45 874 978	(17 391 175)	28 483 803
Office equipment	2 808 142	(1 072 568)	1 735 574	2 712 106	(804 390)	1 907 716
IT equipment	4 911 536	(1 422 346)	3 489 190	4 283 118	(1 190 777)	3 092 341
Infrastructure	997 922 319	(141 486 055)	856 436 264	897 400 895	(92 849 840)	804 551 055
Community	259 607 882	(19 606 589)	240 001 293	258 481 807	(18 244 907)	240 236 900
Leased assets	3 096 537	(1 367 567)	1 728 970	1 728 461	(668 483)	1 059 978
Tools and loose gear	65 448	(65 448)	-	-	-	-
Assets under construction	14 436 421	-	14 436 421	2 899 160	-	2 899 160
Total	1 472 277 333	(210 654 748)	1 261 622 585	1 337 250 018	(143 523 807)	1 193 726 211

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land	2 340 734	-	-	(334 390)	2 006 344
Buildings	96 456 882	23 400	-	(2 696 026)	93 784 256
Plant and machinery	6 733 945	15 985 619	-	(360 719)	22 358 845
Furniture and fixtures	5 963 697	1 557 258	(100 351)	(202 407)	7 218 197
Motor vehicles	28 483 803	558 230	-	(10 614 802)	18 427 231
Office equipment	1 907 716	120 450	(18 664)	(273 928)	1 735 574
IT equipment	3 092 341	712 489	(56 931)	(258 709)	3 489 190
Infrastructure	804 551 055	100 520 925	-	(48 635 716)	856 436 264
Community	240 236 900	1 126 075	-	(1 361 682)	240 001 293
Leased assets	1 059 978	1 368 076	-	(699 084)	1 728 970
Assets under construction	2 899 160	11 537 261	-	-	14 436 421
	1 193 726 211	133 509 783	(175 946)	(65 437 463)	1 261 622 585

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Land	15 452	2 340 734	(15 174)	(278)	2 340 734
Buildings	96 144 710	3 006 526	-	(2 694 354)	96 456 882
Plant and machinery	4 813 090	2 002 337	-	(81 482)	6 733 945
Furniture and fixtures	6 263 809	443 820	-	(743 932)	5 963 697
Motor vehicles	32 039 213	-	-	(3 555 410)	28 483 803
Office equipment	1 582 236	588 149	-	(262 669)	1 907 716
IT equipment	2 851 264	429 394	-	(188 317)	3 092 341
Infrastructure	850 646 602	-	-	(46 095 547)	804 551 055
Community	196 219 053	47 433 356	-	(3 415 509)	240 236 900
Leased assets	910 225	505 602	-	(355 849)	1 059 978
Assets under construction	-	2 899 160	-	-	2 899 160
	1 191 485 654	59 649 078	(15 174)	(57 393 347)	1 193 726 211

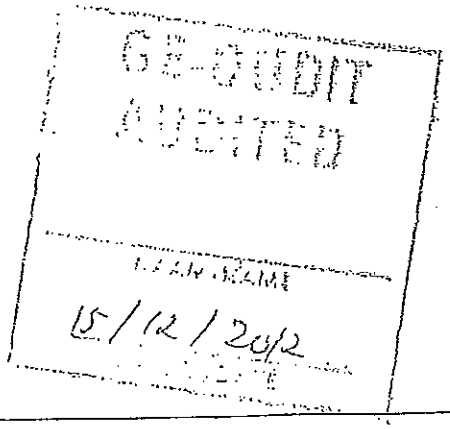
AUDITED
15/12/2012
DATE

Notes to the Financial Statements

Figures in Rand	2012	2011
4. Inventories		
Consumable stores	3 006 644	2 273 135
Pipe fittings	162 785	162 785
Stormwater supplies	1 401 289	1 401 289
Mechanical supplies	450 886	361 472
Water supplies	2 650 643	1 398 838
Electrical supplies	395 022	362 013
	8 067 269	5 959 532
Inventories (write-downs)	(9 318)	(9 318)
	8 057 951	5 950 214
5. Other financial assets		
At amortised cost		
Stanlib Collective Investments: Unit Trusts (Acc No 1005687)	31 090 244	31 845 491
Details of the investment is as follows:		
Start date 01/07/2009		
Maturity date Indefinite		
Original investment amount R30,426,364.39		
Additional investment amount R15,438,204.49		
Withdrawals R-24,605,569.89		
Fund (Unit) balance R27,651,447.29		
Price per Unit (c) 108.155		
Market value (Rc) at 30/06/2011 R31,485,490.75		
Average Annualized Yield 0.0796		
Current assets		
At amortised cost	31 090 244	31 845 491
6. Receivables from exchange transactions		
Trade debtors	433 830	4 174 732
Employee costs in advance	-	247 067
Deposits	-	1 500
	433 830	4 423 299
7. VAT receivable		
VAT	-	16 294 454

VAT is paid on the payment basis.

8. Consumer debtors		
Gross balances		
Rates	23 032 734	6 881 137
Water	69 821 186	41 652 034
Sewerage	12 910 973	11 121 773
Refuse	12 889 065	11 302 839
Other	41 843 653	26 330 402
	160 497 611	97 288 185

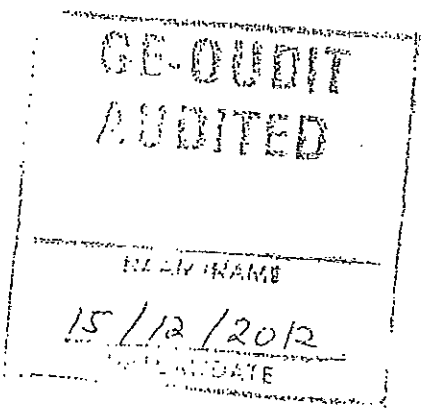


Notes to the Financial Statements

Figures in Rand	2012	2011

8. Consumer debtors (continued)

Less: Provision for debt impairment		
Rates	(18 644 268)	(7 312 175)
Water	(56 390 344)	(37 977 993)
Sewerage	(10 455 140)	(10 293 647)
Refuse	(10 438 275)	(10 410 880)
Other (specify)	(33 382 120)	(24 139 812)
	(129 310 147)	(90 134 507)
Net balance		
Rates	4 388 466	(431 038)
Water	13 430 842	3 674 041
Sewerage	2 455 833	828 126
Refuse	2 450 790	891 959
Other (specify)	8 461 533	2 190 590
	31 187 464	7 153 678
Rates		
Current (0 -30 days)	56 939	(63 999)
31 - 60 days	84 253	(36 306)
61 - 90 days	69 051	2 539
91 - 120 days	70 591	(30 614)
121 days+	4 107 632	(302 658)
	4 388 466	(431 038)
Water		
Current (0 -30 days)	460 430	141 031
31 - 60 days	3 949 561	59 522
61 - 90 days	145 480	79 287
91 - 120 days	610 453	58 740
121 days+	8 264 918	3 335 461
	13 430 842	3 674 041
Sewerage		
Current (0 -30 days)	37 715	37 085
31 - 60 days	37 815	14 509
61 - 90 days	37 695	13 870
91 - 120 days	37 635	13 512
121 days+	2 304 973	749 150
	2 455 833	828 126
Refuse		
Current (0 -30 days)	40 426	89 608
31 - 60 days	40 558	14 834
61 - 90 days	40 389	14 125
91 - 120 days	40 206	13 665
121 days+	2 289 211	759 727
	2 450 790	891 959



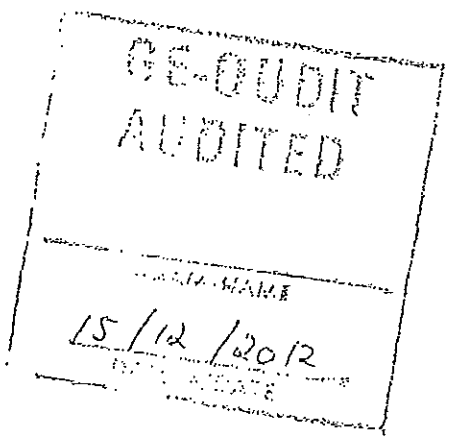
Notes to the Financial Statements

Figures in Rand	2012	2011

8. Consumer debtors (continued)

Other (specify)	324 126	124 338
Current (0 -30 days)	780 924	63 510
31 - 60 days	244 280	72 913
61 - 90 days	294 675	55 098
91 - 120 days	6 817 528	1 874 731
121 days+	8 461 533	2 190 590

Reconciliation of debt impairment provision		
Balance at beginning of the year	(90 134 507)	(74 663 597)
Contributions to provision	(39 175 640)	(19 923 138)
Debt impairment written off against provision	-	4 452 228
	(129 310 147)	(90 134 507)



Notes to the Financial Statements

Figures in Rand	2012	2011

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 400	3 200
Bank balances	120 180 696	90 536 303
	120 184 096	90 539 503

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
Absa Bank - 406-889-7663 - Call account	193 925	179 431	-	193 925	179 431	-
Absa Bank - 406 - 952 - 9871 - Call account	9 579 695	74 160	-	9 579 695	74 160	-
ABSA Bank - 407 - 817 - 1160 - Call account	74 028	-	-	74 028	-	-
ABSA Bank - 206 - 040 - 6642 - Fixed deposit account	1 000 000	1 000 000	-	1 000 000	1 000 000	-
ABSA Bank - 207-162-8839 - Fixed deposit account	10 000 000	-	-	10 000 000	-	-
ABSA Bank - 207-051-4936 - Fixed deposit	6 309 814	15 000 000	-	6 309 814	15 000 000	-
ABSA Bank - 40-5285-3972 - Cheque account	6 902 370	9 013 867	-	4 779 509	14 344 012	-
FNB - 742-7440-5718 - Business Fixed Maturity Notice	-	7 950 000	-	-	7 950 000	-
FNB - 742-1692-3637 - Business Fixed Maturity Notice	4 000 000	4 000 000	-	4 000 000	4 000 000	-
FNB - 742-7779-9762 - Business Fixed Maturity Notice	7 000 000	7 000 000	-	7 000 000	7 000 000	-
FNB - 743-2229-0136 - Fixed deposit	15 703 816	-	-	15 703 816	-	-
FNB - 623-3774-5048 - Call account	-	-	-	-	-	-
FNB - 743-5936-3740 - Fixed deposit	5 000 000	-	-	5 000 000	-	-
Nedbank - 03-7881062983-000018 - Call deposit	20 525 493	4 894 540	-	20 525 493	4 894 540	-
Nedbank - 03-7881062983-000034 - Call deposit	-	10 000 000	-	-	10 000 000	-
Standard Bank - 5482940-003 - Notice deposit	-	5 000 000	-	-	5 000 000	-
Standard Bank - 038568640-003 - Retail/Wholesale call account	16 282	7 270 456	-	16 282	7 270 456	-
Standard Bank - 548772940-004 - Notice deposit	3 581 901	3 407 099	-	3 581 901	3 407 099	-
Standard Bank - 0385608640-005 - Fixed deposit	-	7 000 000	-	-	7 000 000	-
Standard Bank - 548772940-005 - Retail/Wholesale call deposit	2	3 416 605	-	2	3 416 605	-
Standard Bank - 038568640-014 - Fixed deposit	10 000 000	-	-	10 000 000	-	-
Standard Bank - 038568640-015 - Fixed deposit	15 000 000	-	-	15 000 000	-	-
Standard Bank - 038568640-016 - Fixed deposit	7 000 000	-	-	7 000 000	-	-
Total	121 887 326	85 206 158	-	119 764 465	90 536 303	-

Notes to the Financial Statements

Figures in Rand	2012	2011

10. Finance lease obligation

Minimum lease payments due		
- within one year	895 784	500 931
- in second to fifth year inclusive	2 305 233	1 454 532
	3 201 017	1 955 463
less: future finance charges	(1 089 332)	(667 540)
Present value of minimum lease payments	2 111 685	1 287 923
Non-current liabilities	1 050 564	787 532
Current liabilities	1 061 121	500 391
	2 111 685	1 287 923

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 - 5 years and the average effective borrowing rate was 7.5% - 10.25%.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

11. Payables from exchange transactions

Trade payables	6 046 455	35 982 609
Other payables	2 624 647	-
Accrued bonus	1 758 975	1 527 397
Deposits received	93 588	77 861
Employee related costs	227 469	227 468
	10 751 134	37 815 335

12. VAT payable

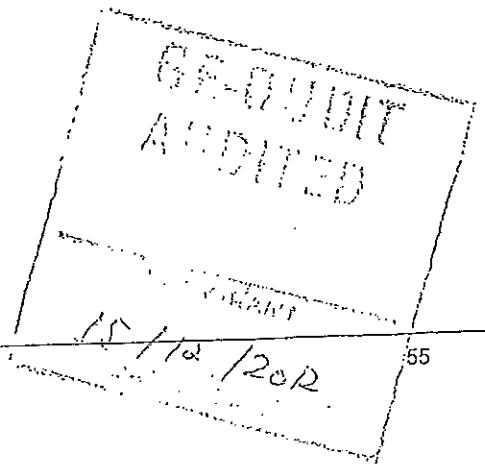
VAT payable	4 836 516	-

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	64 202 612	15 363 305
Municipal infrastructure grant	3 542	-
Finance management grant	229 882	-
MSIG	500 000	-
IDC grant	64 936 036	15 363 305

See note 19 for reconciliation of grants from National/Provincial Government.



Notes to the Financial Statements

Figures in Rand	2012	2011

14. Provisions

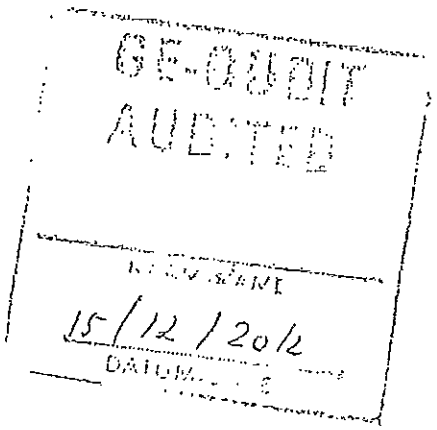
Reconciliation of provisions - 2012

	Opening Balance	Change in discount factor	Total
Siyabuswa landfill	5 376 433	913 993	6 290 426
Mdutjana landfill	3.502 351	595 399	4 097 750
	8 878 784	1 509 392	10 388 176

Reconciliation of provisions - 2011

	Opening Balance	Change in discount factor	Total
Siyabuswa landfill	4 955 238	421 195	5 376 433
Libangeni landfill	3 227 973	274 378	3 502 351
	8 183 211	695 573	8 878 784

The municipality has two landfills for which the calculation was made. The calculations of the closure costs have been based on an estimated 15 years useful life and a discount rate of 8.5%.



Notes to the Financial Statements

Figures in Rand	2012	2011

15. Revenue

Property rates	3 554 764	2 009 562
Service charges	62 857 087	20 959 718
Rental of facilities and equipment	1 557 406	1 190 301
Interest received – trading	12 180 264	7 849 821
Licences and permits	2 758 799	2 824 478
Government grants and subsidies	274 095 269	282 325 048
	357 003 589	317 158 928

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	62 857 087	20 959 718
Rental of facilities and equipment	1 557 406	1 190 301
Interest received – trading	12 180 264	7 849 821
Licences and permits	2 758 799	2 824 478
	79 353 556	32 824 318

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	3 554 764	2 009 562
Transfer revenue		
Grants and subsidies	274 095 269	282 325 048
	277 650 033	284 334 610

16. Property rates

CE-QUOT
AUDITED
SIGN/NAME
15/12/2012
DATE/DATE

Rates received

Residential	1 506 209	893 361
Commercial	185 333	102 845
State	1 854 223	1 008 933
Small holdings and farms	8 999	4 423
	3 554 764	2 009 562

Valuations

Residential	546 667 200	546 667 200
Commercial	46 447 000	46 447 000
State	289 713 762	289 713 762
Small holdings and farms	7 871 000	7 871 000
	890 698 962	890 698 962

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. The basic rates of R0.0049 (2011: R0.0045) on the value of agricultural land and buildings, R0.0054 (2011: R0.0050) on the value of business land and buildings, R0.0098 (2011: R0.0090) on the value of state land and buildings and R0.0049 (2011: R0.0045) on the value of residential land and buildings are applied to determine assessment rates. These rates were agreed to the approved tariff policy.

17. Service charges

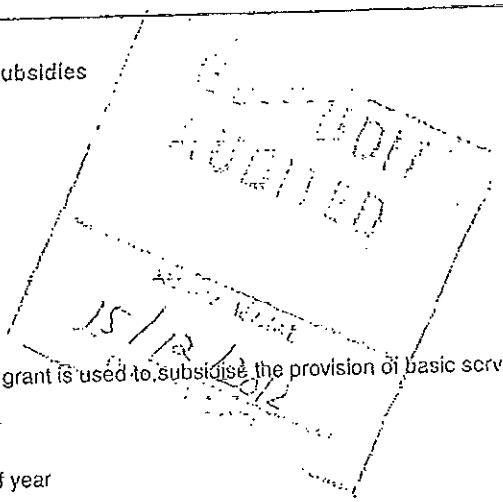
Refuse removal	2 855 655	2 653 067
Sale of water	59 993 156	18 199 029
Sewerage and sanitation charges	8 276	107 622
	62 857 087	20 959 718

Notes to the Financial Statements

Figures in Rand	2012	2011

18. Government grants and subsidies

Equitable share	205 518 000	180 529 090
Municipal Infrastructure Grant	42 485 693	60 569 695
Financial Management Grant	1 246 458	3 000 000
MSIG	560 118	750 000
DWAE Grant	24 285 000	37 476 263
	274 095 269	282 325 048



Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	15 363 305	-
Current-year receipts	91 325 000	75 933 000
Conditions met - transferred to revenue	(42 485 693)	(60 569 695)
	64 202 612	15 363 305

Conditions still to be met - remain liabilities (see note 13).

The grant is used to supplement municipal capital budgets to eradicate backlogs on municipal infrastructure utilised in providing basic services for the benefit of poor households.

Financial Management Grant

Current-year receipts	1 250 000	3 000 000
Conditions met - transferred to revenue	(1 246 458)	(3 000 000)
	3 542	-

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

MSIG

Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(560 118)	(750 000)
	229 882	-

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the local government municipal systems act 32 of 2000.

IDC Grant

Current-year receipts	500 000	-

Conditions still to be met - remain liabilities (see note 13).

DWAE Grant

Current-year receipts	24 285 000	37 476 263
Conditions met - transferred to revenue	(24 285 000)	(37 476 263)
	-	-

All conditions for the spending of this grant has been met.

Notes to the Financial Statements

Figures in Rand	2012	2011

18. Government grants and subsidies (continued)

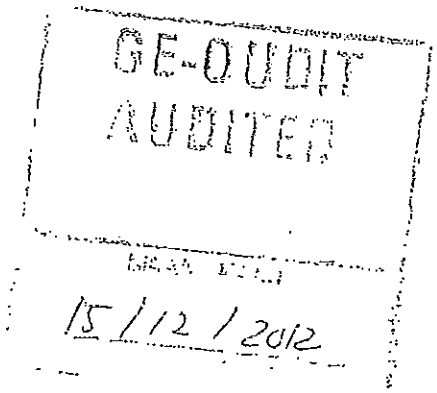
Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

19. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges		
Premises	731 064	384 704
• Contractual amounts		
Equipment	838 827	946 630
• Contractual amounts		
	1 569 891	1 331 334
Gain on sale of property, plant and equipment	348 565	905 326
Impairment on property, plant and equipment	-	278
Depreciation on property, plant and equipment	65 437 466	38 582 200
Employee costs	98 299 972	93 685 589



Notes to the Financial Statements

Figures in Rand	2012	2011
20. Employee related costs		
Basic	52 429 612	50 349 500
Bonus	7 267 360	3 885 359
Medical aid - company contributions	3 094 182	2 744 723
UIF	541 612	508 556
WCA	-	223 151
SDL	593 048	-
Post-employment benefits - Pension - Defined contribution plan	9 556 403	8 906 065
Travel, motor car, accommodation, subsistence and other allowances	2 108 530	1 243 322
Overtime payments	3 682 279	3 822 716
Housing benefits and allowances	1 440 566	1 429 947
Bargaining council levy	22 147	21 888
Group life contributions	27 234	34 846
	80 762 973	73 170 073
Remuneration of municipal manager - Maibebela MM		
Annual Remuneration	723 228	623 309
Backpay	-	44 553
Lumpsum	-	1 040 346
Company contributions	7 357	145 330
Benefits and allowances	-	62 841
	730 585	1 916 379

The municipal manager's salary includes all the benefits she received from the municipality before her dismissal. The dismissal was effective from management from September 2011.

Remuneration of chief finance officer - Monageng MS		
Annual Remuneration	95 044	571 208
Backpay	-	36 755
Lumpsum	126 698	14 259
Company contributions	8 019	39 965
Benefits and allowances	43 030	247 149
	272 791	909 336

The chief finance officer's salary includes all the benefits she received from the municipality before her dismissal. The dismissal was effective from management from September 2011.

Remuneration of technical manager - Skosana AJ		
Annual Remuneration	84 209	664 721
Company contributions	19 274	99 884
Benefits and allowances	203 834	81 057
	307 317	845 662

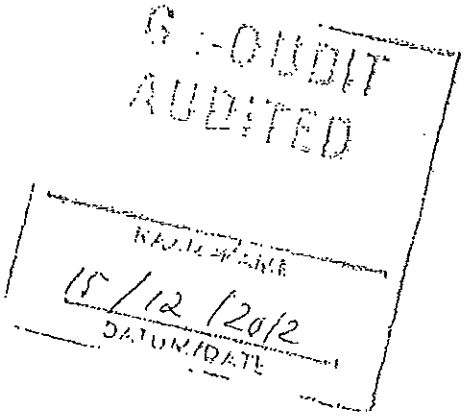
The technical manager's salary includes all the benefits he received from the municipality before his dismissal. The dismissal was effective from management from September 2011.

Remuneration of admin manager - Mabena BTJ		
Annual Remuneration	514 546	1 317 498
Company contributions	172 964	156 603
Benefits and allowances	75 409	75 409
	762 919	1 549 510

Remuneration of community development services manager - Busane NP

Notes to the Financial Statements

Figures in Rand	2012	2011
20. Employee related costs (continued)		
Annual Remuneration	554 459	543 016
Company contributions	125 229	119 002
Benefits and allowances	132 823	130 179
	812 511	792 197
21. Remuneration of councillors		
Executive Mayor	625 863	613 174
Speaker	532 083	500 238
Councillors	13 492 930	13 389 020
	14 650 876	14 502 432
22. Investment revenue		
Interest revenue		
Unlisted financial assets	8 380 321	10 726 857
Bank	1 825 622	852 358
	10 205 943	11 579 215
23. Depreciation and amortisation		
Property, plant and equipment	65 437 466	38 582 200
24. Debt impairment		
Debt impairment	3 922 494	-
Contributions to debt impairment provision	39 175 640	19 923 138
	43 098 134	19 923 138
25. Auditors' remuneration		
Fees	2 347 293	1 359 016
26. Grants and subsidies paid		
Other subsidies		
Indigent grants	10 335 310	6 237 627



Notes to the Financial Statements

Figures in Rand	2012	2011

27. General expenses

Accounting fees	106 194	92 663
Advertising	1 498 074	1 140 069
Auditors remuneration	2 347 293	1 359 016
Bank charges	180 657	155 062
Chemicals	5 047 608	4 571 727
Cleaning	3 264 227	1 596 074
Computer expenses	-51-757	5 388
Conferences and seminars	163 997	644 531
Consulting and professional fees	1 534 715	1 618 531
Delegates expenditure	110 800	4 312 948
Entertainment	897 768	1 061 305
Insurance	1 658 780	1 545 556
Landfill	754 697	695 573
Lease rentals on operating lease	1 569 891	1 331 334
Licence fees paid	12 226 583	14 533 797
Motor vehicle expenses	9 653 860	7 424 551
MSIG	789 999	750 000
Other expenses	19 587 167	18 701 162
Postage and courier	1 770	13 992
Printing and stationery	2 766 864	3 818 405
Protective clothing	23 594	386 203
Restructuring	2 375 091	-
Security	8 449 254	7 668 611
Subscriptions and membership fees	827 401	-
Telephone and fax	2 580 596	2 836 309
Training	3 456 157	1 413 567
Travel	3 770 255	3 190 685
Uniforms	76 250	4 340
VIP toilets	4 491 457	-
Water reticulation	1 355 902	-
	91 618 658	80 871 399

AUDITED
15/12/2012
DATUM/DATE

28. Cash generated from operations

Surplus	72 965 116	81 667 596
Adjustments for:		
Depreciation and amortisation	65 437 466	38 582 200
Gain on sale of assets and liabilities	(348 565)	(905 326)
Fair value adjustments	(82 309)	-
Finance costs - finance leases	159 939	125 769
Impairment deficit	-	9 596
Debt impairment	43 098 134	19 923 138
Movements in provisions	1 509 392	695 573
Other non-cash items - Property, plant and equipment	-	(35 705 591)
Other non-cash items	(22 183 539)	-
Other non-cash items	-	(438)
Changes in working capital:		
Inventories	(2 107 737)	(632 153)
Receivables from exchange transactions	3 989 469	(1 794 861)
Consumer debtors	(67 131 920)	(24 034 034)
Payables from exchange transactions	(27 064 202)	8 189 744
VAT	21 130 970	7 284 778
Unspent conditional grants and receipts	49 572 731	15 363 305
	138 944 945	108 769 296

Notes to the Financial Statements

Figures in Rand	2012	2011

29. Commitments

Authorised capital expenditure

Already contracted for but not provided for • Property, plant and equipment	179 360 921	-
Not yet contracted for and authorised by accounting officer • Property, plant and equipment	13 298 123	-

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

30. Contingencies

Litigation is in the process against the municipality due to a loss of support. Civil action in the Pretoria High Court is scheduled for 3 March 2013 for the sum of R1,500,000. The municipality's lawyers believe there are prospects of success in the matter.

The municipality is being sued for breach of employment contract to the sum of R4,000,000. There are prospects of success in this matter.

31. Prior period errors

Below is a detail split of items reclassified and corrected as per prior period errors relating to incorrect classification of amounts and certain prior period amount errors. The errors found were reclassified retrospectively.

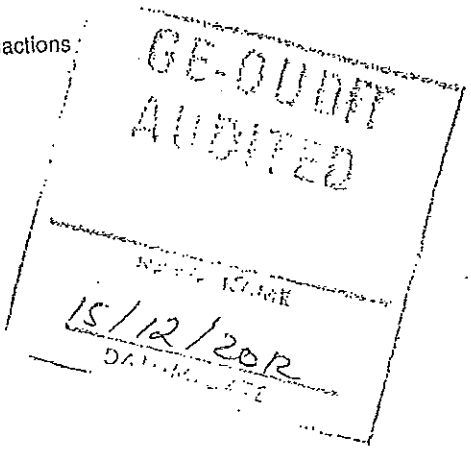
The correction of the error(s) results in adjustments as follows as per financial statement description:

A council resolution was received for the writing off of some accounts that experienced no movement from prior years.

Balances were restated where found to be incorrect from the support obtained.

An exercise was performed on the restatement of the inventory, property, plant and equipment, provision for landfill sites and finance lease balances.

Statement of financial position	
Inventories	- 1 685 987
Financial assets	- 16 933 534
VAT receivable	- (84 839)
Cash and cash equivalents	- (18 684 553)
Property, plant and equipment	- (277 448 406)
Intangible assets	- (147 911)
Finance lease obligation	- (997 525)
Trade and other payables from exchange transactions	- 545 085
Provisions	- 748 254
Other financial liability	- 3 510 314
Accumulated surplus	- 257 702 169
Statement of financial performance	
Rental of facilities and equipment	- (292 142)
Other income	- (3 510 313)
Interest received	- 18 663 223
Employee costs	- 117 492
Depreciation and amortisation	- 355 573
Finance costs	- 125 769
General expenses	- 768 694
Impairment loss	- 9 596



Figures in Rand	2012	2011

32. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Budgeted cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. Surplus cash are held as short term deposits to assist in settling future commitments.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's revenue and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk included the bank balances.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, trade receivables and other receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to consumers are settled mainly in cash. Management makes use of an independant attorney to assist in debt collection.

The municipality establishes an provision for debt impairment that represents its estimate of incurred credit losses in respect of trade and other receivables. All of the municipality's consumers were reviewed for indications of impairment and certain receivables were found to be impaired and an allowance for credit loss was provided for.

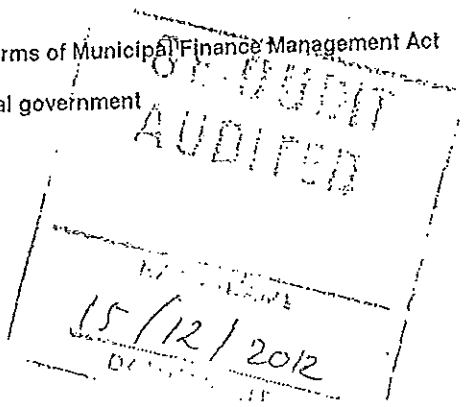
33. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

34. Fruitless and wasteful expenditure

Catering	23 684	-
Special Event Tent	218 891	-
VIP toilets	92 400	-
	334 975	-

35. Additional disclosure in terms of Municipal Finance Management Act



Contributions to organised local government

Opening balance	778 811	512 120
Current year subscription / fee	300 352	781 811
Amount paid - current year	(294 352)	(6 000)
Amount paid - previous years	(778 811)	(509 120)
	6 000	778 811

Audit fees

Amount paid - current year	2 347 293	-

Notes to the Financial Statements

Figures in Rand	2012	2011

35. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

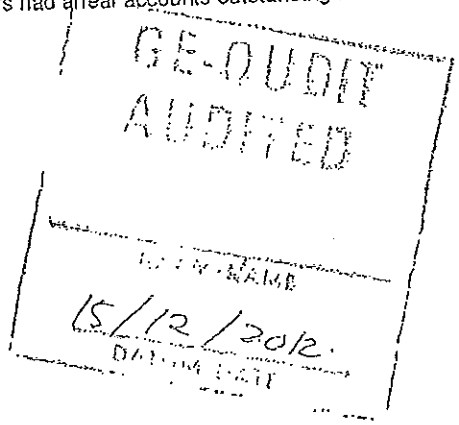
Opening balance	2 435 155	4 894 906
Current year subscription / fee	12 378 103	15 038 688
Amount paid - current year	(12 384 834)	(12 603 533)
Amount paid - previous years	(2 435 155)	(4 894 906)
	(6 731)	2 435 155

VAT

VAT receivable	-	16 294 454
VAT payable	4 836 516	-
	4 836 516	16 294 454

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:



30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Maganedisa MS	191	2 225	2 416
Mashishi MW	133	101	234
Masilela SE	55	36	91
Mdluli DM	491	1 985	2 476
Mogano NG	192	514	706
Ndlovu AZ	560	11 104	11 664
Paahla SM	185	797	982
Shabalala RB	338	2 073	2 411
Shabangu MM	374	3 145	3 519
Skhosana GJ	394	262	656
Skhosana SN	2 311	7 024	9 335
	5 224	29 266	34 490

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Entertainment on heritage day	66 500	-
Cleaning of water pipeline	29 000	-
Purchase of cold asphalt for pothole	139 990	-
Repairs of graders and TLB	112 202	-
Repairs	58 523	-
Repairs of a low bed trailer	26 300	-
Service of Bell machines	179 377	-
Repairs to pump station	89 262	-
Sub - soil drainage system material	550 396	-
Cutting of tree	25 900	-
Construction of stormwater channel	655 191	-
Supervision of the maintenance and construction	800 000	-
Clearing, grubbing, road surface repair, pothole patching, drainage unblocking, road cleaning and rubble removal	2 500 000	-
Mayoral car	606 595	-
	5 839 236	-